GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3617
ANSWERED ON:25.08.2006
EXCISE DUTY ON MOTOR VEHICLE
Singh Shri Prabhunath

Will the Minister of FINANCE be pleased to state:

(a) Whether the Government reduced the rate of excise duty on motor vehicles in the budgets of 2001-02 to 2003-04;

(b) If so, the details thereof;

(c) Whether major motor vehicle manufacturers did not pass on the benefit of excise duty reduction to the consumers and retained for itself the deduced excise amount to the tune of about Rs. 927.312 crore;

(d) Whether these vehicle manufactueres during 2001-04 increased the cost of their vehicles despite reduction in the prices of major raw materials used by the vehicle manufactueres; and

(e) If so, the reasons therefor and the action taken by the Government against these vehicle manufacturers for cehating the public?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S.PALANIMANICKAM)

(a) Yes, Sir.

(b) In budget 2001-02, excise duty on passenger cars was reduced from 40% to 32%. In budget 2003-04, excise duty on passenger cars was further reduced from 32% to 24%.

(c) while generally the prices came down consequent to reduction in prices in some cases, in the long run, were not in proportion to the duty reduction.

(d) The qudit Report of the C&AG for India (Indirect Taxes) for the year 2003-04 on `Excise duty on Motor Vehicles for transport of persons and goods` has pointed out that there was increase in prices of cetain models of cars by their manufacturers during the period of study.

(e) The price of a product is a function of several factors, including cost of raw materials, labour costs, power, interest costs and other commercial considerations arising out of competition and prevailing demand-supply conditions. Excise duty is only one of the elements in the cost of a vehicle. There is no mandatory or legal requirement to pass on every excise duty cut in the same proportion to consumers. Duty cuts can be given for various reasons, including improving the health of the industry, reduction consumer prices, compensating for rising costs in some areas, improving competitiveness and so on. In view of above question of taking action against the manufacturers because the benefit of the duty reduction was not fully passed on to the consumers, does not arise.